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## Pinch State Pennies on a Priority Basis

***Schwarzenegger's proposed 10% across-the-board cut would hit both crucial functions and low-priority programs equally hard.***

By Bob Stone and Rick Cole  
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Five years ago, the state of Washington faced a budget deficit every bit as crushing as the one now facing California. Eager to bring spending back in line with revenues, advisors to then-Gov. Gary Locke told him that balancing the state budget would require a 15% across-the-board cut. That way, they said, every state agency would be cut proportionately and the result, while unpleasant, would be fair, reasonable and, they argued, least painful.

Locke, however, had another idea. "That is not what we are going to do," he said. "I don't want to thin the soup. I want state government to do a great job in fulfilling its highest priorities."

Instead of relying on the traditional status-quo-but-less-of-it approach, Locke turned the budget process upside down by deciding to focus less on what needed to be cut than on what ought to be kept. First, he established his top 10 priorities, and then he ranked every state program against them. Funding was stretched as far as possible -- but everything else went unfunded.

Today, California is in a similar position. Faced with a budget deficit now estimated at \$14 billion for next year, Gov. Arnold Schwarzenegger is talking about a 10% across-the-board cut to balance the state budget.

But of all the ways to try to balance California's budget, an across-the-board cut is probably the dumbest. Cutting everything equally may sound "fair," but it won't work. It abandons any sense of priorities. It's "thinning the soup," to use Locke's phrase, which is why it's been rejected in many states, cities and counties in favor of an approach called "budgeting for outcomes."

In California, cutting 10% across the board would be like taking the family car and reducing its weight with a blowtorch and shears: It wouldn't give you a smaller, more efficient version of what you had. Current programs would continue to exist, but they would be starved of crucial funding to actually accomplish their goals. Imagine Caltrans unable to lay off staff because of civil service and union protections but without funds to maintain roads. Or state hospitals unable to repair broken elevators or buy needed supplies.

Not that budgeting for outcomes is painless. When Locke finished the process in Washington, he had eliminated 2,500 state jobs, deferred pay raises for state employees, increased state college tuition and

suspended a \$221-million class-size-reduction effort that had been mandated by a citizen initiative. While some duplicative programs were merged and low-priority programs like the State Film Office were eliminated, there was no magic.

On the other hand, by sticking closely to his key priorities within the available revenue, the hard choices at least made rational sense. The new, austere budget preserved higher-priority spending, including programs to prevent disease by reducing environmental hazards, to improve food sanitation and to fund public health clinics. A major reform of prison sentencing was enacted, releasing 1,200 low-risk felons early. Overall school aid was reduced, but a higher portion was directed to improving the lowest-performing schools.

The response from the state's newspapers was overwhelmingly positive. The new budget passed the Legislature practically intact with bipartisan support, and Locke's successor has continued to use the same approach.

Over the next few years, budgeting for outcomes was adopted by Iowa, Oregon, Michigan and South Carolina and by the cities of Dallas, Spokane, Azusa, Ventura and others.

Schwarzenegger should be a perfect candidate for this approach. In his first days as governor, he said he would be "blowing up the boxes," and he commissioned the California Performance Review to redesign state government from top to bottom to make it work better and cost less. The review recommended eliminating or restructuring low-priority programs to free up funds to be put to better use elsewhere. No across-the-board cuts there.

The 2,400-page review produced many good ideas and a few bad ones. But when special interests, such as the California State Employees Assn. and the California Acupuncture and Oriental Medicine Assn., howled, the governor abruptly dumped the effort.

Now California is back in crisis. While all the tricks have been exhausted, taking a salami slicer to state government is not the only alternative. Budgeting for outcomes takes focus and rigor, but by first funding the activities that produce the most important results, it provides the most defensible -- and sensible -- way to make tough choices.

Cutting 10% will be painful. California's choice is between the easy way and the hard way, between the wrong way and the right way. The wrong way chops everything. The right way safeguards the most critical functions and services. Either way, California will end up with a smaller government that does less. Yet budgeting for outcomes produces a government that does less, but does it well.

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